1986/87

ANNUAL REPORT

BRITISH COLUMBIA SYSTEMS CORPORATION
A PROVINCIAL CROWN CORPORATION

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Province of
British Columbia

Ministry of
Finance and
Corporate Relations

Parliament Buildings
Victoria
British Columbia
V8V 1X4

BC SYSTEMS ANNUAL REPORT 1986/87

JUNE 29, 1987

OFFICE OF THE MINISTER

The Honourable Robert Gordon Rogers
Lieutenant-Governor of the Province of British Columbia

May it please your Honour:

The Annual Report of the British Columbia Systems Corporation for the fiscal year 1986/87 is herewith respectfully submitted.

Honourable Mel Couvelier

BOARD OF DIRECTORS

Hon. M. Couvelier
Director and Minister
Responsible

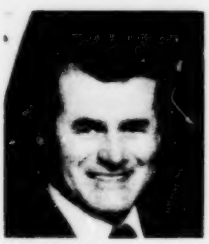
G.J. Hook
Chairman of the Board

W.E. Evans
Director

D.M. Buchanan
Director

M.J. Falkins
Director

R.J. Gayton
Director



J.R. Webber
Director

C.D. Slade
Secretary to the Board

EXECUTIVE

Left to Right: J.G. Hayes, Executive Director, Finance and Administration; R.N. Greer, Vice President, Client Services and Human Resources; C.D. Slade, Vice President, Data Processing Services; W.E. Evans, President and Chief Executive Officer; G.F. Gabel, Vice President, Communications Services; N.E. Glassel, Senior Vice President, Client Services and Corporate Planning.

BOARD OF DIRECTORS

G.J. HOOK
Geoffrey J. Hook Consulting Services
Victoria, B.C.
Chairman of the Board

HON. M. COUVELIER
Minister of Finance and Corporate Relations
Province of British Columbia
Victoria, B.C.
Director and Minister Responsible
Appointed November 1986

HON. J.J. HEWITT
Minister of Education
Province of British Columbia
Victoria, B.C.
Director and Minister Responsible
Resigned September 1986

D.M. BUCHANAN
Penticton, B.C.
Director

W.E. EVANS
President and Chief Executive Officer
British Columbia Systems Corporation
Victoria, B.C.
Director

M.J. FALKINS
Senior Vice President
Falkins McIntosh, Reed Stenhouse
Victoria, B.C.
Director & Chairman
Compensation Committee

R.J. GAYTON
Partner
Peat, Marwick, Mitchell & Co.
Vancouver, B.C.
Director & Chairman
Audit Committee

HON. H.A. CURTIS
Minister of Finance
Province of British Columbia
Victoria, B.C.
Director and Minister Responsible
Resigned November 1986

J.R. WEBBER
Partner
Webber and Company
Kamloops, B.C.
Director

C.D. SLADE
Secretary to the Board

EXECUTIVE

W.E. EVANS
President and Chief Executive Officer

G.F. GABEL
Vice President
Communications Services

N.E. GLASSEL
Senior Vice President
Client Services and Corporate Planning

R.N. GREER
Vice President
Client Services and Human Resources

C.D. SLADE
Vice President
Data Processing Services

J.G. HAYES
Executive Director
Finance and Administration

CORPORATE ADDRESSES

CORPORATE HEADQUARTERS
4000 Seymour Place
Victoria, B.C.
V8X 4S8

VANCOUVER BRANCH
601 West Broadway
Vancouver, B.C.
V5Z 4C2

CHAIRMAN'S MESSAGE

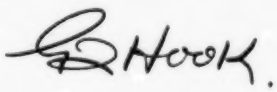
A year of considerable progress, both in terms of service to our Clients and improved efficiency, has been completed for fiscal 1986/87.

A major accomplishment of the past year was the expansion of our client base. Seen as a key strategy for future revenue stability and growth, our success in securing new clients speaks well of the quality of BC Systems' products and the service orientation of its staff. We welcome the opportunity to serve a broader public sector data processing community.

Continued financial strength was enhanced by significant reductions on the expense side. This increase in the Corporation's efficiency, combined with growth in business volumes, made it possible to implement significant price reductions. Lowering the costs of government data processing continues to be a high priority for BC Systems.

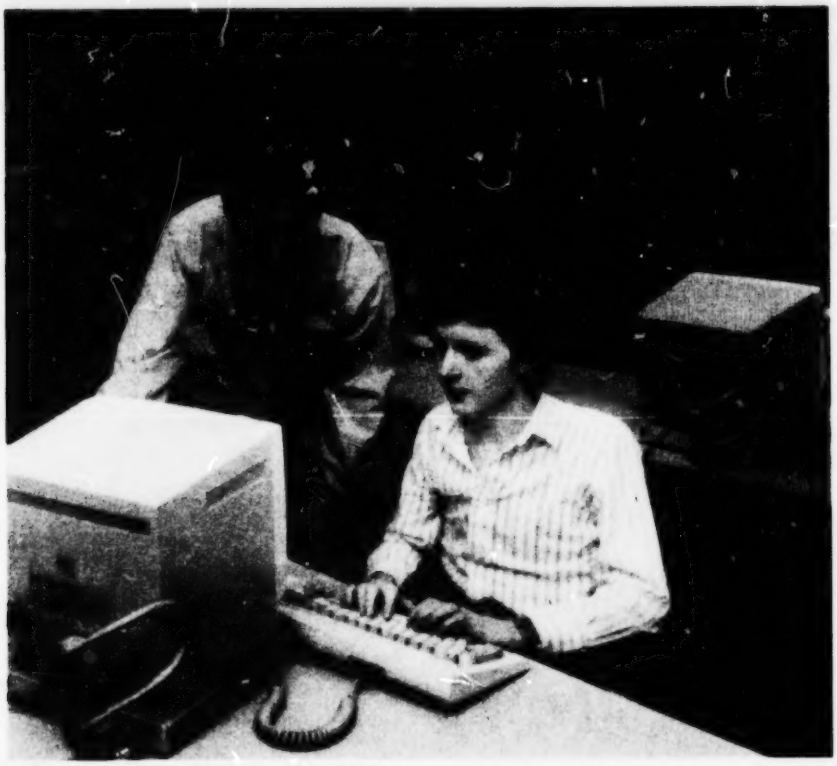
The Corporation continues to play a leadership role in developing new services and products to improve government's utilization of system technology. Of particular note is the product development work completed on the INFO BC Project, reviewed in this report.

On behalf of the Board of Directors, I wish to thank the staff and management of the Corporation for their contributions in strengthening our position as an effective government service organization and a national leader in the information systems field.



G.J. Hook
Chairman of the Board

REPORT ON OPERATIONS 1986/87



WCB'S new Access Ability Training Center

BC Systems Client Services Representative at the Ministry of Finance

CLIENT BASE EXPANSION

BC Systems has been successful in extending the scope of its Client base into new areas of the public sector. The Workers Compensation Board, BC Ferry Corporation and several Municipalities have all shown confidence in the quality of our products and services. This expansion has increased the effectiveness of our services for all areas of government.

PRICE REDUCTIONS

Continuing attention to efficiency and dramatic increases in the economies of scale of our shared services, put BC Systems in a position to introduce significant price reductions. The new prices resulted in a 30% average reduction in the costs of shared MVS processing for our Clients. Additional reductions are planned for fiscal 1987/88.

NEW SERVICE FOCUS

In the first full year of operation under its new service mandate, BC Systems put major effort into establishing effective working relationships with its Clients. User Review Committee survey results confirmed that these efforts resulted in an increased level of Client satisfaction.

SHARED PROCESSING SERVICES

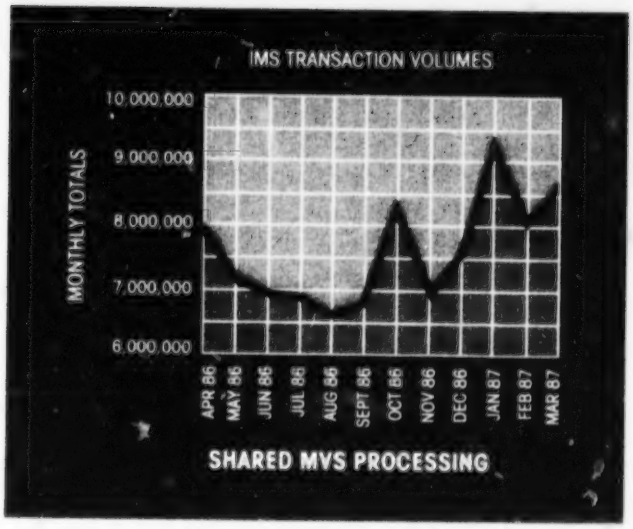
In 1986/87, shared mainframe processing volumes increased by 20%. Shared minicomputer processing grew as well, with shared VM processing increasing by 100% and shared VAX processing growing by 250%.

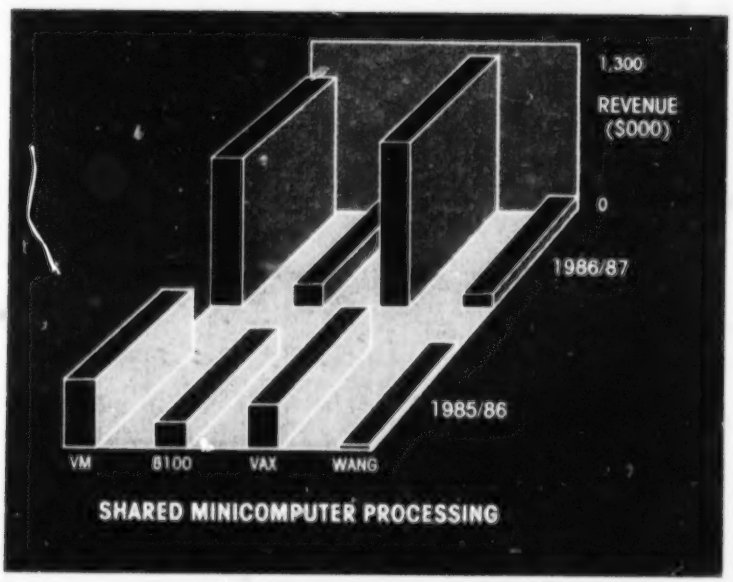
NETWORK SERVICES

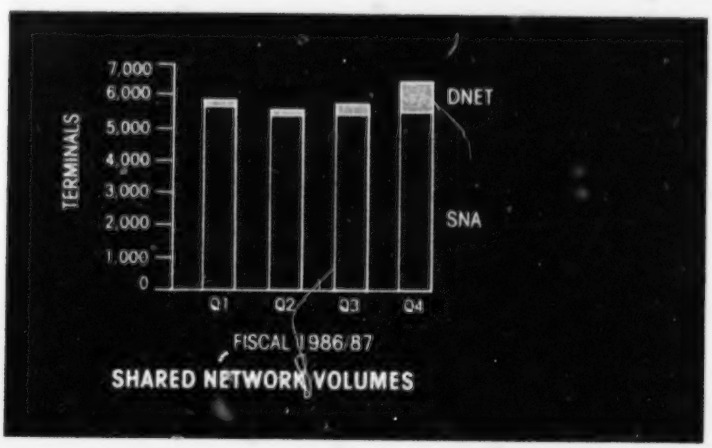
With the addition of the newly developed distributed network (DNET), the total number of logical terminals supported on our province-wide network grew to more than 6300.

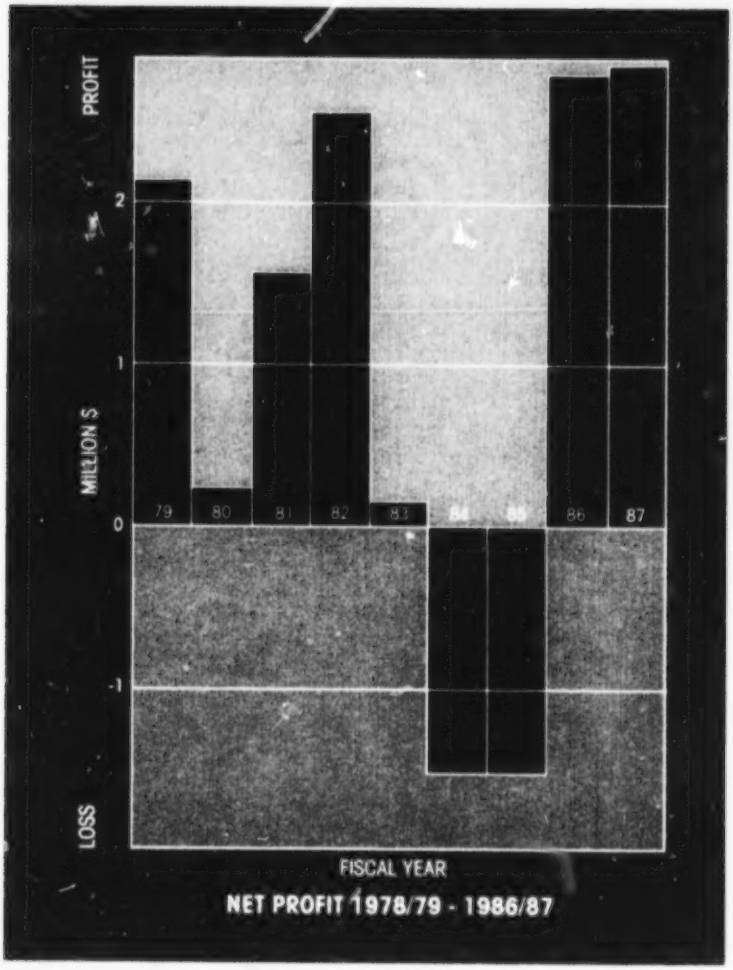
PROFESSIONAL SERVICES

Secondment of data processing professionals to the Ministries of the B.C. government continued to be a popular service. As well, the provision of Client data processing education has become an increasingly important offering. An increase in education revenues of 319% was achieved in 1986/87.









NET PROFIT 1978/79 - 1986/87

NET PROFIT

The Corporation surpassed its record financial performance of the previous year by achieving a net profit for the 1986/87 year of $2.713 million. These profits offset historic losses and put the Corporation in a net surplus position.

LONG TERM DEBT

Long term debt was reduced by $6 million in 1986/87. The interest burden on remaining debt was substantially reduced through refinancing actions.

CASH FLOW

The Corporation's cash flow and accounts receivable performance improved significantly with the introduction of a new billing system.

DISTRIBUTED NETWORK

The Distributed Network (DNET) offering was developed to supplement our extensive SNA network. DNET provides data communications services to users of a variety of brands of non-IBM data processing equipment. The service has been very well received, establishing a base of nearly 700 terminals in its inaugural year.

ELECTRONIC MAIL

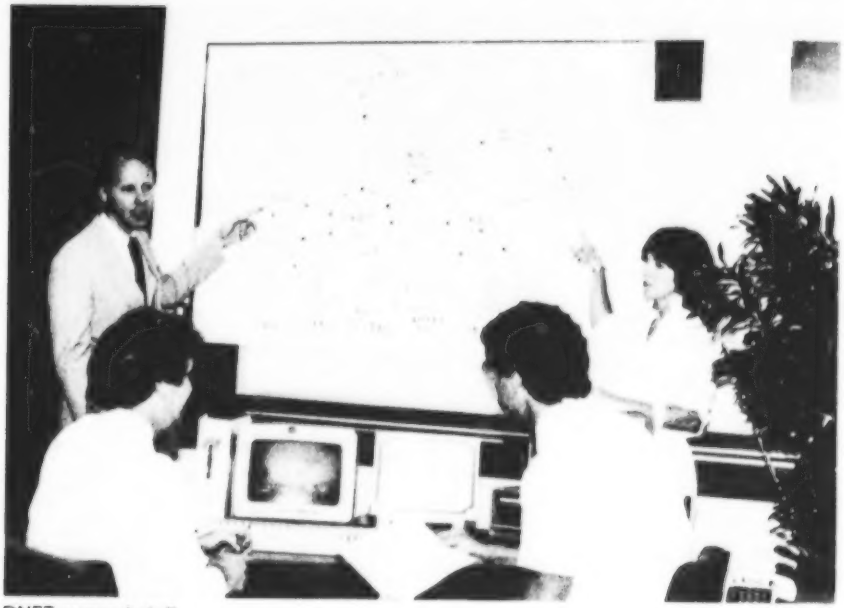
Electronic mail is becoming an increasingly important tool for both intra and inter-ministry communications. The challenge of providing this service on a government-wide basis involves the integration of a variety of vendor technologies. BC Systems has been successful in creating an environment that serves over 2000 e-mail users.

3090 INSTALL

Major on-line applications and vast ministry data bases form the heart of many of government's data processing systems. To meet a steadily increasing demand from these systems for capacity, performance and reliability, a major upgrade to the MVS environment was installed. A new IBM 3090 processor now provides all our shared MVS services. This powerful machine has provided BC Systems with extremely cost effective growth capacity.

VAX PROCESSING GROWTH

The success of our Shared VAX Processing service has been extraordinary! Users such as the Ministries of Environment and Parks, Education, and Forests and Lands have all found the sharing of VAX capacity and technical resources to be an effective way to handle their information processing needs.



DNET support staff

INFO B.C. Touch Screen Terminal

Info Place product demonstration

INFO BC

An exciting new product development effort was initiated in 1986/87. The INFO BC Project, a co-operative venture involving the private sector, government Ministries, and BC Systems, is making the goal of open government a reality in B.C. Through the innovative use of technology, the project's participants are developing techniques to provide the private sector and the general public with effective access to government information.

EDUCATION SERVICES

The education and training required to support the evolving technical environment of the B.C. public sector is significant. BC Systems has played a unique leadership role in co-ordinating the educational needs of the government with the training resources of the private sector. Courses covering a variety of technical and management topics were delivered to a number of public sector organizations. In the majority of cases, private sector organizations were responsible for supplying instructors and training material.

VENDOR PRESENTATIONS

BC Systems co-ordinated vendor demonstrations covering a wide spectrum of data processing products and services. These sessions provided vendors with opportunities to increase market awareness of their offerings, and to expose public sector users to a range of innovative business solutions.

VANCOUVER OFFICE REJUVENATION

One of the Corporation's 1986/87 objectives was to establish a closer link with existing and potential Clients in the Vancouver area. Through the efforts of a new Vancouver support organization, we were able to meet our strengthened support and marketing goals.

HUMAN RESOURCE MANAGEMENT INITIATIVES

Human resources are considered to be the Corporation's most vital asset. Our commitment to the growth and development of our staff was evident in a number of human resource management initiatives. These included the implementation of a formal performance management system, over 2400 student days of training, and the introduction of an Employee Recognition Program. 86/87 staff survey results indicated a positive response to these programs.

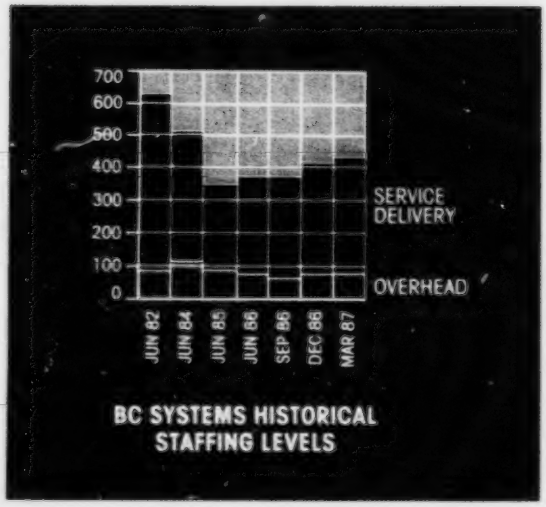
OFFICE AUTOMATION

Dedication to the principles of the 'electronic office' has contributed to an effective and efficient administrative environment. Everyone at BC Systems now has a workstation and access to a variety of support tools, including electronic mail, spreadsheets and several information bases.

The results of this initiative are evident in increased levels of administrative productivity. Output per employee increased by 34% in 1986/87, bringing the total increase over the past two years to 57%. As well, the number of non-billable overhead staff was reduced by 4% during the year and the number of staff involved in providing billable services increased by 12%

Performance management training session

BC Systems' Executive Information System



USER REVIEW COMMITTEE REPORT

The principal role of the User Review Committee (URC) is to provide advice from a user perspective to the BC Systems Board of Directors. During 1986-87, the URC fulfilled its role in great measure.

A User Satisfaction Survey was conducted by the URC in which senior and technical managers were asked to comment on their experiences with the services provided by the BC Systems Corporation. This survey revealed a high overall level of satisfaction; but it also identified areas requiring continued improvement. Results of the survey will assist the Corporation in the development of its current and future product and service plans. Similar surveys will be conducted every two years.

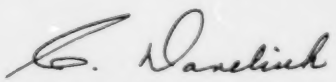
The Corporation was assisted by the URC in a review of the nature of computerized information available in the ministries. BC Systems is interested in ascertaining how it could be of assistance to ministries to make appropriate information more available to the public. Reaction to a proposed change to the Corporation's pricing policy of its products and services for 1988-89 proved to be most helpful to both the Corporation and Treasury Board.

In addition to its primary role as advisor to the BC Systems Board, advice of the URC on systems related issues was sought by other areas of government. At the request of a committee of senior government officials, the URC conducted a study on the issue of Telecommunication Services to the B.C. Government. The report, with a series of recommendations, was forwarded to the Ministers responsible for the services. The URC was pleased to note that a private and independent consultant essentially endorsed the recommendations of the Committee.

Advice to Treasury Board Staff on the completion of the Information Systems Management Framework document was perhaps the most important contribution by the URC. This document forms the basis of policy development and management of the systems activities of government and hence is critical to all members of the URC. The recommendations of the URC were accepted and approved by Treasury Board in 1986-87. The URC is participating with Treasury Board staff in the development of a training package for government managers that will allow managers to fully understand the administration of system services in government. Additionally, the URC arranged a seminar on strategic planning from a data perspective, a very timely topic for all ministries at this time.

The URC expanded its membership during 1986-87 to include representatives from all ministries of the B.C. Government and an ex-officio senior member from Treasury Board staff.

In summary, 1986-87 was a very active and productive year for the User Review Committee. I am particularly pleased with the role it was able to play throughout the year in helping to strengthen the relationship between the ministries, BC Systems and Treasury Board. With my term as Chairman concluding at the end of the 1986-87 fiscal year, I would like to sincerely thank the members of the Committee for their untiring efforts. Sincere appreciation is offered to the senior management of the Corporation for their assistance and support of the Committee.



C. Daneliuk
Chairman, User Review Committee

AUDITORS' REPORT

The Honourable Mel Couvelier
Minister of Finance and Corporate Relations
Province of British Columbia

We have examined the balance sheet of British Columbia Systems Corporation as at March 31, 1987 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The comparative figures were reported on by other auditors.

Thorne Ernst & Whinney

Thorne Ernst & Whinney
May 25, 1987

BALANCE SHEET

ASSETS

(expressed in thousands)

	Year ending March 31 1987	1986
CURRENT ASSETS		
Cash	$ 234	$ 2,034
Accounts receivable	3,694	10,344
Prepaid expenses	311	307
	4,239	12,685
FIXED ASSETS		
Land	6,917	6,917
Building	31,377	31,227
Computer and ancillary equipment (note 1)	32,270	29,130
Furniture and fixtures	1,868	1,886
Leasehold improvements	170	151
	72,602	69,311
Accumulated depreciation and amortization (note 1)	13,229	17,517
	59,373	51,794
OTHER ASSETS		
Deferred foreign exchange translation loss	–	628
Deferred bond discount and issue costs	196	–
	196	628
	$63,808	$65,107

APPROVED BY THE BOARD:

_____ Director

_____ Director

(see accompanying notes)

BALANCE SHEET

LIABILITIES

(expressed in thousands)

	Year ending March 31 1987	1986
CURRENT LIABILITIES		
Note payable, Province of British Columbia (note 3)	$ 4,472	$ 2,000
Accounts payable and accrued liabilities	5,984	6,537
Contractual liability for computer and ancillary equipment (note 1)	9,908	98
Deferred revenue	215	486
Current portion of long-term debt (note 4)		
Lease capitalization	535	3,310
Other	929	16,491
	22,043	28,922
LONG-TERM DEBT (note 4)		
Lease capitalization	1,338	3,253
Other	37,850	23,068
Note payable	–	10,000
	39,188	36,321
RETAINED EARNINGS (DEFICIT) (note 6)	2,577	(136)
	$63,808	$65,107

(see accompanying notes)

STATEMENT OF INCOME & RETAINED EARNINGS

(expressed in thousands)	Year ending March 31 1987	1986
REVENUE		
Processing	$32,678	$37,221
Labour	2,534	2,559
Network	6,540	3,122
Services purchased for clients, net	2,178	1,026
Interest and other	1,996	1,515
	45,926	45,443
EXPENSES		
Employee	8,573	7,642
Equipment rental and maintenance (note 5)	8,101	6,903
Administrative and general	3,428	3,080
Depreciation and amortization	9,014	8,229
Interest on debt	8,536	10,058
Facilities management fees (note 9)	5,561	6,823
	43,213	42,735
NET INCOME (note 6)	2,713	2,708
Deficit at beginning of year	(136)	(2,844)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ 2,577	$ (136)

(see accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

CASH PROVIDED BY (USED FOR)

(expressed in thousands)

	Year ending March 31 1987	1986
OPERATIONS		
Net income	$ 2,713	$ 2,708
Items not involving cash:		
Depreciation and amortization	9,340	8,361
Deferred foreign exchange translation loss	628	779
Deferred bond discount and issue costs	(196)	–
Loss (gain) on disposal of fixed assets	(302)	53
Change in non-cash operating working capital	5,822	1,363
	18,005	13,264
FINANCING		
Long-term debt reductions	(31,470)	(3,618)
Additions to long-term debt	16,000	1,996
Short-term borrowings, net of repayments	2,472	2,000
	(12,998)	378
INVESTMENTS		
Additions to fixed assets	(23,511)	(7,928)
Proceeds from disposal of fixed assets	6,894	299
Change in contractual liability for computer and ancillary equipment	9,810	(5,743)
	(6,807)	(13,372)
INCREASE (DECREASE) IN CASH POSITION	(1,800)	270
Cash position at beginning of year	2,034	1,764
CASH POSITION AT END OF YEAR	$ 234	$ 2,034

(see accompanying notes)

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 1987

GENERAL

The British Columbia Systems Corporation is incorporated as a Crown Corporation of the Province of British Columbia under the System Act R.S.B.C. 1979, to advance the effective and efficient use of information systems in government, by providing shared computer processing, data communication and other professional services. In 1987, the Corporation received 91% of its revenues from Provincial Government Ministries, with the balance from other Government entities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT PRESENTATION
As prescribed by Section 9(6) of the System Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles.

ACCRUAL ACCOUNTING
The accrual method of accounting is used in the preparation of these financial statements. Accordingly, revenues are recorded in the period they are earned and expenditures are recorded in the period they are incurred.

FIXED ASSETS
The Corporation leases some of its computer equipment. Certain of these leases, however, transfer the benefits and risks incident to ownership to the Corporation. In such cases, as more fully described in notes 1 and 4, the leases have been capitalized.

The cost of fixed assets is depreciated and amortized over their estimated useful lives as follows:

Building	Over forty years on a straight-line basis
Building plant and equipment	Over twenty years on a straight-line basis
Computer mainframes	Over terms up to five years on an annuity basis
Other computer and ancillary equipment	Over three years on a straight-line basis
Furniture and fixtures	Over ten years on a straight-line basis
Leasehold improvements	Over terms of leases on a straight-line basis

REVENUE RECOGNITION
Revenue from resource billing is recognized as the services are performed. Revenue from fixed price contracts for data processing services is recognized over the terms of the respective contracts.

INCOME TAXES
The Corporation is exempt from Federal and Provincial income taxes.

SINKING FUNDS
Payments made to sinking funds with respect to retirement provisions of the sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

AMORTIZATION OF OTHER ASSETS
Deferred bond discount and issue costs are amortized on a straight-line basis over the term of the debt.

NOTES TO FINANCIAL STATEMENTS

Continued

1. FIXED ASSETS
   (a) During the year, the Corporation acquired fixed assets and capitalized leases totalling $23,511,000 (computer and ancillary equipment – $23,280,000). The Corporation also disposed of fixed assets with a gross book value of $20,220,000 (computer and ancillary equipment – $20,140,000).
   (b) Included in fixed assets is computer equipment arising from the capitalization of certain leases at a cost of $2,469,000 (1986 – $13,344,000). The related accumulated depreciation amounts to $868,000 (1986 – $6,937,000).

2. BORROWING AUTHORITY
   Pursuant to Section 8(6) of the System Act, the Corporation may be advanced or borrow up to $65,000,000. In computing that amount, the aggregate net rentals payable by the Corporation under leases of personal property for a term exceeding one year shall be excluded.

3. NOTE PAYABLE, PROVINCE OF BRITISH COLUMBIA
   This consists of a short-term note of $4,472,000 which bears interest at 7.25% and matures on April 2, 1987.

NOTES TO FINANCIAL STATEMENTS

Continued

4. LONG-TERM DEBT

(a) Lease capitalization

The minimum annual contractual obligation with respect to capitalized leases are as follows:

1988	$ 795,000
1989	874,000
1990	602,000
1991	102,000
	2,373,000
Less imputed interest at an average annual rate of 15.9%	500,000
Capitalized lease obligations	1,873,000
Less current portion	535,000
Long-term portion	$ 1,338,000

(b) Other

	Interest rate	Maturity date	Amount
Canada Pension Plan debentures			
Series 1	15.69%	2002	$14,007,000
Series 2	16.10%	2002	12,500,000
Province of British Columbia bond			
Series BCSC-M	9.00%	1992	16,000,000
			42,507,000
Less sinking funds on deposit with the Minister of Finance for British Columbia (1986 – $2,859,000)			3,728,000
			38,779,000
Less current portion			929,000
Long-term portion			$37,850,000

Mandatory sinking fund requirements in respect of the above debt for each of the next five years and thereafter are as follows:

	CPP S-1 & 2	Bond BCSC-M	Total
1988	$ 579,000	$ 350,000	$ 929,000
1989	579,000	350,000	929,000
1990	579,000	350,000	929,000
1991	579,000	350,000	929,000
1992	579,000	14,600,000	15,179,000
Thereafter	19,884,000	–	19,884,000
	$22,779,000	$16,000,000	$38,779,000

The Province of British Columbia has guaranteed the payment of principal and interest on all long-term debt issued by the Corporation.

NOTES TO FINANCIAL STATEMENTS

Continued

5. TAPE CONVERSION PROJECT
In 1987 the Corporation made the decision to convert the majority of its reel tape storage devices to a more reliable cartridge system. A conversion project is under way which will be completed in 1988. The cost of the conversion, estimated at $550,000, has been fully provided for in these financial statements.

6. NET INCOME
Pursuant to Section 8(5) of the System Act, the Lieutenant-Governor in Council may, each fiscal year, on the recommendation of the Minister of Finance, direct the transfer to the Government of all or part of the net income for the current year or for previous years to the extent not previously so transferred.

7. LEASE COMMITMENTS
The Corporation leases some of its premises and computer equipment for periods of up to five years.

The minimum annual contractual obligations of non-cancellable leases are as follows (excluding amounts relating to capitalized leases):

1988	$ 370,000
1989	300,000
1990	165,000
1991	130,000
1992	25,000

8. PENSION AND SUPERANNUATION PLANS
Until the Corporation establishes a pension or superannuation plan, the Public Service Superannuation Act applies to the Corporation and its officers and employees. The Corporation is obliged to contribute to the Public Service Superannuation Fund.

9. FACILITIES MANAGEMENT CONTRACT
On October 1, 1986, the Corporation exercised a one-year renewal option on the Facilities Management Contract and subsequent to the year end, agreed to a further one-year extension of the contract.

Under the revised terms of the contract, the Corporation assumed direct responsibility for certain functions which resulted in the repatriation of twenty-nine positions from Hi-Tech Systems Ltd.

10. CONTINGENCIES
(a) At March 31, 1987, there are claims and potential claims against the Corporation in respect of management remuneration matters pertaining to prior years. The Corporation is unable to determine the extent of any liability, if any, which may result from these claims and potential claims.
(b) The Corporation is obligated under the Facilities Management Contract (note 9) to cover certain employee termination costs should the contract not be renewed. The Corporation is unable to determine the extent of any liability, if any, which may result from this obligation.

No liability has been reflected in these financial statements in respect of these contingent matters. Should a liability arise in the future, the expense will be charged to income in the period in which the settlement occurs.

11. COMPARATIVE FIGURES
Certain comparative figures have been reclassified to conform with the method of presentation adopted in 1987.

NOTES TO FINANCIAL STATEMENTS

Continued